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E R R A T A

I, Emmeline Rocha-Sinha, wish to make the following changes, for the following reasons:

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EMMELINE ROCHA-SINHA

Subscribed and sworn to before me
this day of 2003.

Notary Public

Russell Dep.

In The Matter Of:

***AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P.***

***RANDALL RUSSELL, Ph.D.
September 29, 2003***

***LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171***

RUSSELL, Ph.D., RANDALL



RANDALL RUSSELL, Ph.D.

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- 1 Q. That's correct?
 2 A. That's correct.
 3 Q. A while back you mentioned that you didn't
 4 recall till I guess the very end of the
 5 enterprise here seeing anything alarming that
 6 made you feel like the sky was falling at
 7 AHERF. Do you remember generally discussing
 8 that topic?
 9 A. Yes.
 10 MR. FRIESEN: Objection.
 11 Q. Did you at some point obtain a sense that
 12 indeed the sky was falling as you used that
 13 term at AHERF?
 14 A. I would say that the meeting that I referred to
 15 in which it became clear that these assets had
 16 been be moved and transferred, that at that
 17 point in time it came out that the -- at least
 18 from my perspective, it came out that the
 19 Mellon Bank loan had been called, yes, at that
 20 point in time there was -- it was clear to me
 21 that there was, you know, I can't say the sky
 22 is falling, but there is obviously a severe --
 23 some severe issues that needed to be dealt
 24 with.
 25 Q. And this meeting occurred subsequent to, your

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- 1 understanding, of the payment of the Mellon
 2 loan?
 3 MR. FRIESEN: Objection.
 4 A. Yes, I believe that's correct.
 5 Q. Are you aware that the Mellon repayment took
 6 place in the third week of April 1998?
 7 MR. McCLENAHAN: I'll object to that.
 8 I think that was actually -- I'll object to the
 9 form of the question. I don't think that you
 10 are right.
 11 A. I don't know the exact date.
 12 Q. On or about April 26th or 7th, 1998?
 13 MR. FRIESEN: Objection, he already
 14 says he doesn't remember.
 15 Q. Does that help refresh your memory, the
 16 specific dates?
 17 A. I don't remember the date honestly.
 18 Q. But in any event, the meeting you are telling
 19 me about happened after the payment, whenever
 20 that happened?
 21 A. That was my recollection.
 22 Q. You talked a little bit this morning about the
 23 10/30/1997 finance committee meeting that you
 24 attended. Do you recall discussing that with
 25 Mr. Friesen?

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- 1 A. Yes.
 2 Q. And I think you mentioned earlier today that at
 3 that meeting management made some
 4 representations about plans that they had in
 5 place to try to address some of the system's
 6 financial problems. Do you remember that?
 7 A. Yes.
 8 Q. At that meeting, at this 10/30/97 meeting, did
 9 you have any sense that the AHERF system was
 10 in -- well, to use your terms, the sky was
 11 falling --
 12 A. No.
 13 Q. -- with the AHERF system?
 14 A. No, I didn't at that point.
 15 Q. Do you remember any discussions at the AHERF
 16 finance committee meetings that you attended
 17 regarding the system's decision to switch to a
 18 consolidated audit format for the presentation
 19 of its financial statements?
 20 A. I read that this morning. Do I remember that
 21 before that, no, I don't.
 22 Q. So you have no independent recollection of that
 23 discussion?
 24 A. No, I don't.
 25 Q. Do you recall during the October 1997 finance

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- 1 committee meeting that we have discussed today
 2 ever doubting or having serious doubts about
 3 management's representations regarding the
 4 plans they had to address the system's
 5 financial problems?
 6 A. I think that I would -- that I was concerned
 7 about the losses and amounting losses, and at
 8 that point I would say that I think we felt --
 9 I felt it was more environmental than it was
 10 management-related at that point; environmental
 11 meaning the reasons we were given for the
 12 problems were, you know, Medicaid reductions in
 13 payments and a number of different changes in
 14 reimbursement and so forth, which were -- which
 15 was the environment of the medical community at
 16 that point in time, as opposed to saying that I
 17 thought the management at that point were
 18 totally derelict in their responsibilities or
 19 anything of that nature.
 20 Q. In response to Mr. Friesen's, one of his prior
 21 questions, I think he asked you if you had
 22 confidence that management could improve the
 23 situation, and I think you responded that yes,
 24 or you would have strenuously objected or
 25 perhaps resigned from the board. Do you

26 (Pages 98 to 101)

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1 remember discussing that?

2 A. Mm-hmm.

3 Q. Is that a yes?

4 A. Yes.

5 Q. Any other options that you would have in your

6 mind as a finance committee member if you did

7 have serious doubts about management's

8 competence to lead the enterprise through its

9 financial problems?

10 MR. FRIESEN: Objection, calls for

11 speculation.

12 A. Yeah, I -- at that point no, I don't think so.

13 Q. At that point you are referring back to October

14 of '97?

15 A. Right.

16 Q. Did you ever attend any board meetings at

17 AHERF -- I'm sorry, any committee meetings at

18 AHERF at which a decision to file bankruptcy

19 was discussed?

20 A. No.

21 Q. And you had no discussions personally with any

22 of AHERF's lenders regarding alternative

23 financing?

24 A. No.

25 Q. Towards the end of your discussion with

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1 Mr. Friesen, you were asked a series of

2 questions about the format and content and size

3 of board meetings and committee meetings. Do

4 you remember that testimony?

5 A. Yes.

6 Q. At any point during your service at AHERF, did

7 you ever feel like you weren't prepared to

8 fulfill your fiduciary duties to the system or

9 its subsidiary boards?

10 A. No.

11 Q. You have an understanding, I assume, that

12 Coopers & Lybrand was, in fact, the system's

13 external auditors during the time you were a

14 committee member at AHERF; right?

15 A. Yes.

16 Q. What is your understanding or what was your

17 understanding, if any, of Coopers' role as

18 external auditor?

19 A. I assumed their role as the external auditor

20 would be no different than being the external

21 auditor of any company, that is they would

22 provide an overview of the finance function,

23 the operating function of the system; and they

24 would assure the board that the financial

25 reporting was in accordance with proper

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1 standards, accounting standards; and that they

2 would in essence wind up giving us a management

3 letter, if you like, and also a audited,

4 hopefully an unqualified statement; that they

5 would look at fraud issues or some other issues

6 perhaps that were evident.

7 But all that being said, you know, my

8 knowledge of accounting and my knowledge of

9 auditing is certainly not what I do for a

10 living, but I know in my own companies even

11 that they rely heavily on the management of the

12 company to report things accurately, and I

13 don't think they are there as watchdogs to find

14 fraud and they might stumble on it if -- I

15 won't say lucky, but you have -- you have them

16 there for a different purpose I think than

17 that.

18 MR. FRIESEN: I'm sorry, just so the

19 transcript is clear, did you say not watchdogs?

20 MR. UNICE: I believe he testified

21 they were -- you can go ahead and answer that

22 one.

23 Q. I think you testified that one role of the

24 auditor was as a watchdog to suspect fraud from

25 management.

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1 A. Right, if they saw fraud or any other unusual

2 practice that would lead them to have any

3 concern, that they would bring to the board or

4 bring to the outside directors.

5 Q. In your board experience outside of AHERF, has

6 there ever been an occasion when entities'

7 outside auditors did, in fact, bring to your

8 attention suspected fraud on the part of

9 management?

10 A. No.

11 Q. Did that -- while at AHERF, did the external

12 auditors ever bring to your attention any

13 concerns they had with expected fraud -- I'm

14 sorry, suspected fraud on the part of

15 management?

16 A. No.

17 MR. FRIESEN: Objection. He had no

18 contact with them.

19 A. Yeah, well, the answer's no, but not --

20 Q. I'm sorry?

21 A. I said the answer's no.

22 Q. Would you expect if the auditors of AHERF did,

23 in fact, find fraud on the part of financial

24 management in the presentation of financial

25 information that was given to them, that the

27 (Pages 102 to 105)

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1 auditors would bring that to the board's
2 attention?
3 MR. FRIESEN: Objection. He's not on
4 the board.
5 Q. Go ahead.
6 A. Yes, I would expect them to.
7 Q. You also mentioned that one of the roles of an
8 auditor in your understanding was to provide or
9 to present unqualified opinions?
10 MR. McCLENAHAN: I'm not sure that's
11 exactly what he said.
12 MR. FRIESEN: Objection.
13 A. I said one would -- one would hope for an
14 unqualified opinion.
15 Q. That was poorly phrased. One of the roles of
16 an external auditor is to provide an opinion on
17 the financial statements of the enterprise, and
18 I think one type of those opinions that you
19 mentioned is an unqualified opinion; is that
20 right?
21 A. Yes, yes, right.
22 Q. Thanks for the clarification. What is your
23 understanding of an unqualified opinion as you
24 used that term?
25 A. My understanding would be that the financial

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1 reporting systems and the information that you
2 see presented in a financial -- in a report or
3 an annual report or year-end report, whatever
4 is being audited, would comply with, you know,
5 generally accounting standards, which -- which,
6 you know, I'm not an auditor, I'm not a finance
7 person, so I don't know if they have different
8 ones for medical systems versus corporations
9 versus whatever.
10 But there are -- there are, to my
11 understanding, standards that have to be met,
12 generally accepted principles, and that's what
13 they are there to do is to see that that's
14 accomplished, to state that.
15 Q. Now, if Coopers & Lybrand did arrive at the
16 conclusion that the financial information
17 presented to them by AHERF management was
18 presented in violation of generally accepted
19 accounting principles, would you expect that to
20 be something that the auditors would bring to
21 the board's or audit committee's attention?
22 MR. FRIESEN: Objection.
23 A. In a general sense, yes.
24 Q. If Coopers & Lybrand had discovered that
25 information presented by management was

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1 intentionally misstated by management, would
2 that be a fact that you would expect the
3 auditors to bring to the board or audit
4 committee's attention?
5 A. Yes, I would.
6 MR. FRIESEN: Objection.
7 Q. If the auditors, in fact, had concerns about
8 the integrity or competence of financial
9 management at AHERF, would those issues be some
10 which you expect the auditors to bring to the
11 board or the audit committee's attention?
12 MR. FRIESEN: Objection.
13 A. Yes.
14 Q. If the auditors had come to you personally
15 during your tenure at AHERF, during your
16 service of tenure at AHERF, with any of those
17 revelations, would that have impacted your view
18 on the success of management's implementation
19 of its business strategy that you discussed
20 earlier with Mr. Friesen?
21 MR. FRIESEN: Objection.
22 MR. McCLENAHAN: Yeah, I'm going to
23 object to the form of the question. I don't
24 know what you mean by of any of, quote, those
25 revelations.

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1 MR. UNICE: The ones that you and I
2 just discussed, and I can break it down by
3 question if you prefer. I'll do that for you,
4 David.
5 BY MR. UNICE:
6 Q. If financial management had come to -- I'm
7 sorry, if the external auditors had come to you
8 with questions they had concerning the
9 competence or integrity of financial
10 management, would that have raised questions in
11 your mind as to the success or wisdom of
12 AHERF management's implementation of its
13 business strategy?
14 A. Yes.
15 MR. FRIESEN: Objection.
16 Q. Would your response be the same if the auditors
17 had come to you with the concern that the
18 financial information presented to them had
19 been materially misstated?
20 MR. FRIESEN: Objection.
21 A. Yes.
22 Q. Would your response be the same if the auditors
23 had come to you with information that they
24 believed showed that the financial information
25 presented to them was prepared in violation of

28 (Pages 106 to 109)

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1 generally accepted accounting principles?

2 MR. FRIESEN: Objection.

3 A. Yes.

4 Q. And would your response be the same if the
5 auditors had come to you with a belief that the
6 information presented to them by AHERF
7 management was procured by -- was created by
8 fraud?

9 MR. FRIESEN: Objection.

10 A. Yes.

11 Q. Now, if any of those revelations that you and I
12 just discussed had been made to you, can you
13 explain to me what options you would have had
14 as a member of a subsidiary board or the
15 finance committee of AHERF to respond to such
16 concerns?

17 MR. FRIESEN: Objection, calls for
18 speculation.

19 MR. McCLENAHAN: You can answer if
20 you are able to.

21 A. Well, I -- I don't know what I would do in that
22 situation. I wasn't confronted with that.

23 Q. Okay. Would one option though be the perhaps
24 retention of outside consultants to further
25 examine the issue?

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1 MR. FRIESEN: Objection.

2 Q. Would that be one of the options available to
3 you whether or not you knew, in fact, you would
4 have done that?

5 MR. FRIESEN: Objection.

6 A. I think that would be premature at that point.

7 Q. Why is that?

8 A. As a member of the board -- of a subboard,
9 which I was --

10 Q. Yes.

11 A. -- the first thing I would do is go to the
12 chairman of the board and the chairman of the
13 audit committee and say I have been approached
14 with this information and what would you --
15 what is the situation, what is going on.

16 And, quite frankly, I'm serving in a
17 committee that doesn't have authority to
18 respond in that area other than, you know, as a
19 trustee, my fiduciary responsibility to go to
20 those people. So, yes, if I were on those
21 committees and you asked me is that an
22 alternative, yeah, it might be.

23 Q. So any of the -- I'm sorry, go ahead, sir.

24 A. Your last question, would it be appropriate to
25 get outside -- somebody else to come in and

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1 look, and the answer would be if I were on

2 those committees, my judgment, depending on the
3 circumstances, that might be an option, yes.

4 Q. So in the position you were actually in at
5 AHERF, you would have made further inquiry to
6 either the board or the audit committee?

7 A. Yes, I would have, yes, under those
8 circumstances.

9 Q. Do you recall that in the end of the summer of
10 1998 AHERF elected to not retain
11 PriceWaterhouseCoopers for its fiscal year 1998
12 audit?

13 A. Yes.

14 Q. Tell me what you recall about that decision.

15 A. I -- I recall that that occurred. I can't
16 recall the specifics of the meeting to be
17 honest with you.

18 Q. I've just handed you what's already been marked
19 in this litigation as Exhibit 2105. They
20 appear to be minutes of the 8/27/1998 finance
21 and audit committee. They are in draft form
22 and are not signed.

23 This document bears the Bates numbers
24 CL 150833 through 38. Take a moment to review
25 this document, and let me know if you have ever

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1 seen it before today.

2 - - - -

3 (The witness reviewed the Exhibit.)

4 - - - -

5 MR. McCLENAHAN: Do you want the
6 witness to tell you whether he has seen this
7 document before? Is that your question?

8 MR. UNICE: That's my preliminary
9 question, yeah.

10 A. I don't recall seeing this document.

11 Q. Do you note on the first page under members
12 present, the last one appears to be your name?

13 A. Yes.

14 Q. Do you know whether or not you attended this
15 meeting --

16 A. I would -- I would suspect I was there, yes.

17 Q. So you have no reason to believe you didn't
18 attend?

19 A. I have no reason to believe I didn't attend.

20 Q. Have you had a chance to review the document?

21 A. I'm still reading. There's a lot of stuff
22 here.

23 MR. McCLENAHAN: Well, is there
24 something you want to call his attention to?

25 Q. Yes, let me do it this way. Based on what

29 (Pages 110 to 113)

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1 you've reviewed so far in the document, does
2 this refresh your memory at all about any
3 discussions at the finance and audit committee
4 meeting regarding the decision to not retain
5 PriceWaterhouseCoopers?

6 And I'll point your attention to page
7 Bates numbered CL 150837, the middle of which
8 contains a resolution recommending that the
9 AHERF board replace PriceWaterhouseCoopers as
10 external auditor for AHERF and its
11 subsidiaries.

12 A. I'm sorry, would you repeat the question?

13 Q. Sure. Does that passage I just referenced to
14 you refresh your memory as to any discussions
15 that you took part in regarding the decision to
16 replace PriceWaterhouseCoopers?

17 A. I don't remember any -- any specific
18 discussions or who said what at the meeting. I
19 do remember that we did decide to replace the
20 auditors, that we were disappointed with the
21 management, we were disappointed with the
22 outcome, the circumstances. We were generally
23 disappointed with, you know, the condition of
24 the -- of the system at that point in time, and
25 so it seemed perhaps prudent to make a change,

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1 A. No.

2 Q. And reviewing this document doesn't refresh
3 your memory as to any comments he may have had;
4 is that right?

5 A. No, it really doesn't.

6 Q. Did you take part in any discussions that led
7 to the termination of either Mr. Abdelhak or
8 Mr. McConnell?

9 A. No.

10 Q. Did you see any documents during your service
11 at AHERF regarding the termination of either of
12 those individuals?

13 A. No.

14 Q. Were you aware that the fall of 1998
15 PriceWaterhouseCoopers and AHERF issued a press
16 release stating that the fiscal year 1997
17 audited financial statements should no longer
18 be relied upon?

19 A. I remember something to that effect.

20 Q. Can you explain your recollection to me?

21 A. Basically what you just said, couldn't rely on
22 the financial statements.

23 Q. Did you take part in any meetings at which the
24 decision to make that press release was made?

25 A. No.

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1 if for no other reason to be sure that we were
2 getting a fresh look at it and where we were.
3 So I think that -- I think I can say that with
4 some degree of certainty.

5 Q. Do you recall a vote being taken at this
6 finance and audit committee meeting regarding
7 the replacement of Coopers -- I'm sorry, of
8 PriceWaterhouseCoopers?

9 A. I don't remember. I'm sure there was if it's
10 stated there was, but I don't remember.

11 Q. I take it you don't recall which way you voted?

12 A. I don't. However, in all honesty I doubt that
13 I would have objected to this, but I don't
14 remember specifically.

15 Q. Do you recall any discussion by Mr. -- well,
16 let me ask you a different question. Do you
17 know who Joe Dionisio is?

18 A. I remember the name now that I see it.

19 Q. Do you recall his role in AHERF?

20 A. It was in the finance function somewhere.

21 Q. Do you recall any comments he made at this
22 meeting regarding any pros and cons of
23 replacing --

24 A. No.

25 Q. -- PriceWaterhouseCoopers?

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1 Q. Do you recall any --

2 A. Or I don't recall. I don't recall.

3 Q. Okay. Do you recall any reasons supporting the
4 decision to make that press release?

5 A. No.

6 Q. Now, the exhibit we just spoke about, 2105,
7 lists you as a member of the finance and audit
8 committee. Do you recall when that committee
9 was formed at AHERF?

10 A. No.

11 Q. Do you have an understanding as to how you
12 became a member of the finance and audit
13 committee?

14 A. I believe it was -- I won't say I believe. I
15 was a member of the finance committee for
16 AHERF, and it was my -- it is my understanding
17 that that committee continued on after -- after
18 the bankruptcy filing. So, therefore, I was a
19 member of the prior committee, I continued to
20 be a member of the committee.

21 Q. Can you tell me when your committee service
22 ended on the finance and audit committee?

23 A. No, I don't remember.

24 Q. And at the 8/27/98 meeting, do you recall any
25 comments by Anthony Sanzo regarding his views

30 (Pages 114 to 117)

RANDALL RUSSELL, Ph.D.

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1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE
 2 COUNTY OF ALLEGHENY) SS:

3 I, Heidi H. Willis, RPR, CRR, a Court Reporter
 4 and Notary Public in and for the Commonwealth of
 5 Pennsylvania, do hereby certify that the witness,
 6 RANDALL RUSSELL, Ph.D., was by me first duly sworn to
 7 testify to the truth; that the foregoing deposition
 8 was taken at the time and place stated herein; and
 9 that the said deposition was recorded
 10 stenographically by me and then reduced to printing
 11 under my direction, and constitutes a true record of
 12 the testimony given by said witness.

13 I further certify that the inspection, reading
 14 and signing of said deposition were NOT waived by
 15 counsel for the respective parties and by the
 16 witness.

17 I further certify that I am not a relative or
 18 employee of any of the parties, or a relative or
 19 employee of either counsel, and that I am in no way
 20 interested directly or indirectly in this action.

21 IN WITNESS WHEREOF, I have hereunto set my hand
 22 and affixed my seal of office this 1st day of
 23 October, 2003.

24 _____
 25 Notary Public

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1 COMMONWEALTH OF PENNSYLVANIA) E R R A T A
 2 COUNTY OF ALLEGHENY) S H E E T

3 I, Randall Russell, Ph.D., have read the
 4 foregoing pages of my deposition given on Monday,
 5 September 29, 2003, and wish to make the following,
 6 if any, amendments, additions, deletions or
 7 corrections:

8 Page/Line Should Read Reason for Change
 9
 10
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 19

20 In all other respects, the transcript is true and
 21 correct.

22 _____
 23 RANDALL RUSSELL
 24 Subscribed and sworn to before me this
 25 _____ day of _____, 2003.

 Notary Public
 AKF Reference No. HW77452

32 (Pages 122 to 123)

Sanzo Dep.

In The Matter Of:

***OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF ALLEGHENY HEALTH,
EDUCATION, etc. v.
PRICEWATERHOUSECOOPERS***

ANTHONY SANZO

July 2, 2003

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SANZO, ANTHONY - Vol. 2



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1 was different than what Mr. Abdelhak had
2 advised?
3 A. Mr. Abdelhak had apparently --
4 I was told by Mr. Gumberg who told me
5 that he learned of this directly from
6 Mr. Abdelhak.
7 Q. Okay. So at some point -- and you don't, I
8 take it, think that you learned that in the
9 conversation with Mr. Gumberg over the Memorial
10 Day weekend. It was prior to that.
11 A. It was prior to that.
12 Q. So at some point, Mr. Gumberg advised you that
13 the payment -- the \$90 million payment was
14 actually made from assets of AGH and Forbes,
15 and that he had learned that from Mr. Abdelhak.
16 A. Yes, sir.
17 Q. What do you recall about that conversation?
18 What were Mr. Gumberg's observations or your
19 own?
20 A. Mr. Gumberg was livid in expressing this to me,
21 angry in expressing this to me, indicated that
22 he learned it in the context of Mr. Abdelhak
23 asking him for help in getting the other
24 trustees to accept -- he and other trustees to
25 accept this action.

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1 He was -- when I said livid, livid
2 that request would have been made to him, and
3 he told me that he directed Mr. Abdelhak to
4 immediately report this to both the chairman of
5 the AHERF board and the chairman of the AUH
6 West board, who at that time was Frank --
7 Mr. Cahouet.
8 My reaction, of course, was a punch
9 in the stomach kind of reaction.
10 Q. Now, up to the point where you learned that
11 Mr. Abdelhak had utilized assets of AGH and
12 Forbes to repay a bank loan -- something the
13 prior agreements said would not happen without
14 your consent --
15 Correct?
16 A. Correct.
17 Q. -- and that, in fact, something different than
18 Mr. Abdelhak had told you he had done with
19 respect to repayment of that loan, up to that
20 point, what was your opinion, your personal
21 opinion, of Mr. Abdelhak's skills as a
22 manager -- I'm going to ask you three
23 questions -- skills as a manager, number one;
24 number two, dedication to the progress of
25 AHERF; and, number three, loyalty to the AHERF

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1 organization and its constituent parts; so
2 first, skills.
3 A. I've said on many occasions, and I will say
4 today under oath, that I thought and still
5 think that Sherif Abdelhak was perhaps one of
6 the brightest people I ever worked for. He was
7 skilled, may still be skilled; I don't know.
8 And he was articulate, he was fast on
9 his feet, he could analyze complex situations
10 faster than anyone else and, in fact, he was a
11 deal-maker, and I think the reason many of us
12 had confidence that the Vanguard deal would get
13 done was because he said it would get done. I
14 mean, he had done deals in the past, several,
15 so there was that level of confidence.
16 Did you say dedication?
17 Q. Dedication to the AHERF system and its
18 constituent parts.
19 A. He was definitely dedicated to all of AHERF. I
20 think what hurt especially Old Alleghenians --
21 I was not a member. I joined Old Allegheny in
22 1986, but especially the Old Allegheny alums,
23 medical staff, members of the board, his
24 dedication to the greater AHERF, all of AHERF
25 and all of its constituent parts, hurt those

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1 who believed that they were the fountainhead,
2 or the organization from which they hailed was
3 the fountainhead of the AHERF organization, but
4 he was definitely dedicated.
5 I mean, even when he was wrong, he
6 made decisions based on what he thought was
7 going to be in the best interest of AHERF.
8 Notwithstanding all of that, he did
9 have some trouble with ego and humility, and he
10 was perhaps not --
11 He was perhaps arrogant, and when I
12 say that, I don't mean rude. I mean that I
13 think he understood that he was smarter than
14 the average bear and acted sometimes as if he
15 were.
16 So I would say that that was --
17 before this, after this, that was something
18 that any of us, if we were under oath and asked
19 to testify what do we think about Sherif,
20 that's probably not as --
21 He was -- sometimes I think he let
22 his ego get the better of his managerial
23 decisions.
24 Q. And just to fill out this question, Mr. Sanzo,
25 what were your observations about his work

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1 ethic and so on? Was he a part-time guy or --
2 A. No. He may not have been working at the
3 office, but the guy worked all the time. He
4 called me --

5 I felt that he had a device that knew
6 when I had an out-of-town guest, because I
7 would get a call especially when I wanted to be
8 someplace else. Some portion of our working
9 career that overlapped, we lived within two
10 miles of each other. You might consider that
11 convenient. I did not, but, I mean, he
12 definitely was a hard worker. He probably --

13 Well, I don't know. He was a hard
14 worker.

15 Q. And then the last element of this, Mr. Sanzo,
16 is loyalty, by which I intend to convey the
17 question of was this a guy who was making deals
18 for himself or creating financial incentives
19 for himself as opposed to a loyalty to the
20 organization for which he was working, from
21 your observations?

22 A. I think he was motivated first by his loyalty
23 to the organization, but he was definitely
24 motivated by what his accomplishments may mean
25 financially to him. I don't think he was

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1 superhuman in that way.

2 Q. Did you ever become aware, either while you
3 were at Allegheny General or afterward, of
4 Sherif Abdelhak diverting or taking any money
5 or property out of the AHERF organization for
6 his personal use or personal gain?

7 A. No, sir.

8 Q. You never heard anyone else discuss that
9 either?

10 A. I think people discussed compensation and other
11 perks that all were apparent to anyone who had
12 access to the full books, but no acquisition
13 of --

14 I'm taking your question to mean
15 stealing and --

16 Q. Essentially that.

17 A. No. I never heard any such acquisitions.

18 Q. Mr. Sanzo, did you --

19 When you learned about the potential
20 removal of Sherif Abdelhak, did you have any
21 opinion at that point as to what that might do
22 to the proposed sale of eastern hospitals to
23 Vanguard?

24 A. Maybe not at the exact time that I heard that,
25 but it was actually something that I not only

Page 360

1 thought about, but I discussed. Having never
2 met Charlie Martin, Charles Martin, the CEO of
3 Vanguard, or the team with whom he had been
4 working to do the diligence in Philadelphia,
5 there was some concern that, you know, a new
6 face could possibly change the deal; and I
7 shared the concern. I was --

8 My concerns were mitigated by my
9 knowledge that David McConnell had been
10 intimately involved in the discussions, and I
11 ultimately I think that's the side we came down
12 on.

13 Q. Okay. And with whom did you --

14 You said you had a concern and you
15 shared a concern regarding whether a new face
16 in the Vanguard transaction -- I take it, could
17 delay or jeopardize it. Was that your concern?

18 A. I was more concerned about a delay than I was
19 killing the deal, so to speak.

20 Q. And with whom did you have --

21 With whom did you share that concern?

22 A. I talked to David McConnell about it. I talked
23 to Nancy Wynstra, or "Wynstra," about it. I
24 may or may not have talked to trustees about
25 it. I don't know.

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1 Q. Do you recall having those conversations before
2 Mr. Abdelhak was terminated or afterward?

3 A. Afterwards.

4 Q. So those conversations are conversations you
5 would have had after Mr. Abdelhak was
6 terminated after you became the president of
7 AHERF and, in effect, after Mr. McConnell and
8 Ms. Wynstra became folks who were reporting to
9 you?

10 A. That's correct, sir. I would not have presumed
11 to have those conversations otherwise.

12 Q. Prior to becoming the CEO of AHERF in June of
13 1998, as I understand your testimony, you had
14 no responsibility for any of the eastern
15 operations of AHERF.

16 A. That's a correct statement.

17 Q. Having said that, prior to your becoming the
18 CEO of AHERF, did you have any opinion
19 regarding the quality of the management that
20 was responsible for the operations in the east?

21 A. I may have had some PIPs. They're not
22 remarkable.

23 Q. And by "not remarkable," you mean what?

24 A. If you're asking if I thought they were a bunch
25 of bozos in the east and why don't they put

Page 394

1 of the medical staff.
2 Q. Okay. Turning the page, there is a FAX cover
3 sheet for this from Ira Gumberg to Anthony
4 Sanzo. Do you see that?
5 A. I do.
6 Q. And then attached to that is a two-page letter
7 dated July 7, 1998, addressed to the members of
8 the board of trustees of AHERF and signed
9 jointly by PNC Bank and MBIA Insurance
10 Corporation.
11 A. Yes, sir.
12 Q. And the letter shows a CC to, among others,
13 you.
14 A. Yes, sir.
15 Q. Do you recognize the handwriting or the
16 printing on this letter?
17 A. I do not.
18 Q. Now, the letter is dated July 7 of 1998.
19 Correct?
20 A. Yes, sir.
21 Q. And it is signed on behalf of both PNC and
22 MBIA?
23 A. It is.
24 Q. Now, it states, Mr. Sanzo, does it not, that
25 based upon your expressed need for system-wide

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1 The board's current position is
2 inconsistent with its actions in the past and
3 is particularly unfortunate in view of the
4 system-wide need for financing.
5 Mr. Sanzo, do you recall at or about
6 this time, early July of 1998, a combination of
7 PNC and MBIA were proposing to lend up to a
8 maximum of \$160 million, and that a major issue
9 with respect to that effort became the question
10 of whether the assets of the west would be
11 available to secure repayment of the loan?
12 A. I do recall, yes.
13 Q. Can you tell me whether at any point the
14 members of the board of trustees of AHERF
15 during that period or the officers of AHERF
16 during that period, which included you, ever
17 agreed to a proposal to allow the assets in the
18 west to be used as collateral for loans that
19 would be used system-wide, meaning west and
20 east?
21 A. Yes. There was no such agreement.
22 Q. Was that a consistent position adopted by the
23 board of trustees, that they would not allow
24 that to occur; consistent, I mean, throughout
25 the time frame up to and including the

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1 financing on an urgent basis, we enclose a
2 proposed term sheet. Subject to the conditions
3 of the term sheet, we would be prepared to lend
4 a maximum of up to \$160 million dollars, of
5 which not more than \$50 million will be
6 available through August 15, 1998.
7 A. Yes, sir.
8 Q. Is second paragraph indicates that the loan
9 would be made jointly and severally to AHERF,
10 AGH, Forbes, Canonsburg, and Allegheny Valley.
11 Do you see that?
12 A. I do, sir.
13 Q. Those are the western entities. Correct?
14 Except for AHERF, those are the western
15 hospital entities.
16 A. Correct.
17 Q. And it indicates the loan would be fully
18 secured by all assets of the borrowers, which
19 in this letter includes the western hospital
20 entities.
21 A. Correct.
22 Q. The next paragraph states, we have heard that
23 the AHERF board has recently expressed strong
24 reservations with respect to making the credit
25 of the west available to support the east.

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1 bankruptcy filing?
2 A. I believe so. The reason I reflected, I was
3 trying to remember if there were any board
4 resolutions acting on it formally, or if it was
5 just -- and now that I see what was attached to
6 the front of this, I think this list could have
7 been generated by either PNC or Mr. McCool so
8 that they could make sure that these
9 individuals directly got this letter, so that
10 position was well known, and it was, indeed,
11 the directive under which I operated.
12 Q. Now, the letter concludes, does it not, we are
13 willing to undertake this emergency financing
14 in the interest of preserving vital assets of
15 our communities. We urge you to carefully
16 consider this proposal in light of the needs of
17 the AHERF organization.
18 A. It does.
19 Q. And I think you've already testified,
20 Mr. Sanzo, that the proposal was, indeed,
21 considered by the AHERF boards and AHERF
22 management.
23 A. I believe this was delivered directly to at
24 least the members identified A through Q on the
25 front sheet.

37 (Pages 394 to 397)

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1 Q. Okay. But that there never was a departure by
2 any of the AHERF officers or trustees from the
3 position that no assets of the west will be
4 available to secure this line?
5 A. It was an issue that was discussed, but no
6 departure from that position was taken.
7 Q. Okay.
8 - - - -
9 (Deposition Exhibit No. 1642 marked
10 for identification.)
11 - - - -
12 BY MR. McDONOUGH:
13 Q. Mr. Sanzo, I'm going to show you next what's
14 been marked as Exhibit 1642. It is a letter
15 dated July 11, 1998, from MBIA to the board of
16 AHERF in care of you.
17 A. Yes.
18 Q. Now, in reviewing this letter, Mr. Sanzo, do
19 you have any recollection of having received it
20 at or about the date of July 11, 1998?
21 A. I believe I received it, yes.
22 Q. And just chronologically, this would have been
23 about a week or so prior to the actual filing
24 of bankruptcy petitions on behalf of some of
25 the AHERF entities.

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1 A. Yes. I think it was about ten or twelve days.
2 Q. Now, this letter states, dear board member, as
3 president of MBIA Insurance Company, insurer of
4 \$300 million of Delaware Valley Obligated Group
5 bonds and \$71 million of AGH bonds, I am
6 writing concerning the difficult choices
7 currently facing the board of AHERF. Correct?
8 A. Correct.
9 Q. And it goes on to state, we at MBIA have been
10 given to understand that the board is
11 considering bankruptcy filings for one or more
12 entities within the AHERF system. We believe
13 such a filing could have highly deleterious
14 effects on the delivery of health care services
15 and education in Pennsylvania.
16 Finally, Mr. Anthony Sanzo, your new
17 CEO, has told us that the board has not
18 actively considered the sale of the whole AHERF
19 system as a means of avoiding a bankruptcy
20 filing.
21 Our advisors indicate that the sale
22 of the entire system would very likely yield a
23 purchase price well in excess of all debt. The
24 need for a bankruptcy filing would be obviated,
25 subject to receipt of interim financing, which

Page 400

1 MBIA would be pleased to consider providing,
2 just as we have already provided interim
3 financing proposals which the board has
4 rejected.
5 Now, I didn't frankly mean to read
6 that much into the record. I apologize but,
7 Mr. Sanzo, here are my questions with you with
8 respect to this.
9 Do you recall any consideration by
10 the AHERF board of the position taken by MBIA
11 in this letter that a sale of the entire AHERF
12 system could be achieved at a price that would
13 repay in full all debt and, in fact, in excess
14 of all debt?
15 A. I do recall, again to the best of my ability,
16 that the options of combining the entirety of
17 the AHERF system in any form of reorganization,
18 restructuring, or sale, was rejected, was
19 considered and rejected, rejected again not
20 with -- without debate and without dissension
21 by certain members of the board, and, no, I
22 can't remember who would have dissented at this
23 point in time, but it was largely split
24 between, shouldn't be a surprise, but those
25 members based in western Pennsylvania and those

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1 members who were based in eastern Pennsylvania.
2 But it was rejected on the basis that
3 there was a fairly strong belief that the
4 entities, including the New Jersey hospital
5 entities and all entities in the west, if freed
6 from their -- from the financial burden of
7 eastern operations, would be able to survive on
8 their own and, therefore, since they were
9 separately obligated debts, they should be
10 treated as separate organizations, and
11 individual decision should be made on behalf of
12 each rather than one on behalf of the whole.
13 Yes. I have some recollection of
14 those discussions.
15 Q. And were those discussions and decisions a
16 further reflection of what we've been talking
17 about, a decision in the west that no further
18 value from the west was going to be extended to
19 benefit the east?
20 A. I think it was a reflection of that position,
21 yes, sir.
22 Q. Now, Mr. Sanzo, do you recall any analysis
23 within the AHERF organization with respect to
24 whether the statement made here by a major bond
25 insurance company, to the effect that if the

38 (Pages 398 to 401)

Page 402

1 AHERF system were sold, as a whole, that would
2 very likely yield a purchase price well in
3 excess of all debt?

4 A. No, sir. I recall no such analysis being
5 completed.

6 Q. So it's not as if within the board or with the
7 board's advisors there was an effort to
8 determine whether this statement was true or
9 not. It was, in the current vernacular, a
10 nonstarter because it would have involved
11 utilizing western assets to potentially benefit
12 eastern operations?

13 A. There is no analysis done. It was a position
14 that was taken based on our belief that certain
15 entities had the ability to operate on their
16 own merit and should be given that opportunity.

17 -----
18 (Deposition Exhibit No. 1243
19 previously marked for identification.)
20 -----

21 BY MR. McDONOUGH:

22 Q. Mr. Sanzo, I show you next a copy of a letter
23 dated July 13, 1998. This is two days after
24 the prior letter we just looked at?

25 A. Yes, sir.

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1 are willing to consider interim financing for
2 members of the Delaware Valley Obligated Group
3 in an amount up to \$33 million, which you
4 indicated would be a sufficient amount of
5 financing to take the eastern region of AHERF
6 through August 7, 1998.

7 Do you recall, Mr. Sanzo, that at or
8 about July 13, MBIA and PNC made a proposal to
9 lend \$33 million to just the eastern region?

10 A. I recall that --

11 I don't think it was a firm proposal.
12 I do believe that terms of a proposal were
13 being discussed at that point, yes, sir.

14 Q. And were those terms set forth in this letter?

15 A. I would like to read it.

16 Q. Yeah, please do.

17 -----
18 (The witness reviewed the document.)
19 -----

20 THE WITNESS: Okay, sir.

21 BY MR. McDONOUGH:

22 Q. Okay. Now, if only I can remember the
23 question, but let me try to approach it this
24 way, Mr. Sanzo.

25 Was this a proposal or an outline of

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1 Q. This is addressed to you as president and CEO
2 of AHERF.

3 A. Yes, sir.

4 Q. And signed by an individual from PNC Bank.
5 Correct?

6 A. Yes, sir.

7 Q. There is handwriting on this letter. Do you
8 recognize the handwriting?

9 A. I recognize it, and I believe it to be the
10 handwriting of Connie Cibrone.

11 Q. Connie Cibrone at that point in time would have
12 been the president of AGH?

13 A. That's right.

14 Q. Can you decipher it? I mean, actually it's
15 quite good handwriting, but it says, increase
16 to a hundred. Would that be one hundred
17 thousand or one hundred million?

18 A. It says a hundred thousand. I'm not going to
19 interpret it. I'll read it for you. It says,
20 increase to a hundred thousand. If attached
21 to --

22 Q. Do you know what U dot or V dot would refer to?

23 A. No.

24 Q. This letter states, following our conversation
25 of yesterday, I can confirm that PNC and MBIA

Page 405

1 a proposal to lend \$33 million to only the
2 Delaware Valley obligors as opposed to the
3 western ones?

4 A. It seems to be an outline of the proposal that
5 they were willing to consider.

6 Q. Okay. Along the lines that I discussed?

7 MR. COGAN: Objection.

8 A. I don't understand.

9 BY MR. McDONOUGH:

10 Q. Let me withdraw the question.

11 What I'm trying to establish is this
12 letter doesn't say that the cash or the assets
13 in the west would need to be provided to secure
14 this loan. Correct?

15 A. Well --

16 MR. COGAN: Objection.

17 THE WITNESS: It does in a way, sir.
18 It says that AHERF and its affiliates would be
19 required to subordinate any debt owing to them
20 in favor of this debt to PNC and MBIA.

21 BY MR. McDONOUGH:

22 Q. Okay.

23 A. So in some way I think it does obligate at
24 least whatever was outstanding then and owed.

25 Q. I don't disagree with that, Mr. Sanzo. What I

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1 Penn?

2 MR. COGAN: Objection.

3 THE WITNESS: Had I noticed that?

4 Yes. I did notice that.

5 MR. McDONOUGH: That's all the
6 questions I have. Thank you, Mr. Sanzo.

7 MR. COGAN: Why don't we go off the
8 record.

9 THE VIDEOGRAPHER: We're now going
10 off the record. The time on the screen is
11 1:34.

12 - - - -

13 (The proceedings were recessed at 1:34 p.m.)

14 - - - -

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1 COMMONWEALTH OF PENNSYLVANIA) CERTIFICATE
2 COUNTY OF ALLEGHENY) SS:

3 I, G. Donavich, RPR, CRR, a Court Reporter and
4 Notary Public in and for the Commonwealth of
5 Pennsylvania, do hereby certify that the witness,
6 ANTHONY M. SANZO, was by me first duly sworn to
7 testify to the truth, the whole truth, and nothing
8 but the truth; that the foregoing deposition was
9 taken at the time and place stated herein; and that
10 the said deposition was recorded stenographically by
11 me and then reduced to printing under my direction,
12 and constitutes a true record of the testimony given
13 by said witness.

14 I further certify that I am not a relative or
15 employee of any of the parties, or a relative or
16 employee of either counsel, and that I am in no way
17 interested directly or indirectly in this action.

18 IN WITNESS WHEREOF, I have hereunto set my hand
19 and affixed my seal of office this 5th day of July,
20 2003.

21
22
23
24 Notary Public
25

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1 COMMONWEALTH OF PENNSYLVANIA) E R R A T A
2 COUNTY OF ALLEGHENY) S H E E T
3 I, ANTHONY M. SANZO, have read the foregoing
4 pages of my deposition given on Wednesday, July 2,
5 2003, and wish to make the following, if any,
6 amendments, additions, deletions or corrections:

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20 Page/Line Should Read Reason for Change
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22 In all other respects, the transcript is true and
23 correct.

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ROBIN SCHAFFER

Page 1

1 IN THE UNITED STATES DISTRICT COURT FOR THE
2 WESTERN DISTRICT OF PENNSYLVANIA

3 THE OFFICIAL COMMITTEE OF)
4 UNSECURED CREDITORS OF)
5 ALLEGHENY HEALTH, EDUCATION &)
6 RESEARCH FOUNDATION,)

7 Plaintiff,)

8 -vs-)

9 PRICEWATERHOUSECOOPERS, L.L.P.)

10 Defendant.)

Civil Action
No. 00-684

11 VIDEO TAPE
12 DEPOSITION OF: ROBIN R. SCHAFFER
13 VOLUME I

14 DATE: June 4, 2002
15 Tuesday, 9:03 a.m.

16 LOCATION: MANION McDONOUGH & LUCAS
17 14th Floor, USX Tower
18 Pittsburgh, PA 15219
19 412-232-0200

20 TAKEN BY: Defendant

21 REPORTED BY: Claire Gross, CRR, RDR
22 Notary Public
23 AKF Reference No. Cg70512
24
25

ROBIN SCHAFFER

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1 booking bad debt at a budgeted level because
2 with the increased agings and some of the
3 other issues with the bad debt methodologies,
4 he was concerned about booking at budgeted
5 levels.

6 Q. Who decided to book bad debt expense at
7 budgeted levels?

8 A. I can't say. I know why it happened, but I
9 don't know who made the call. My guess would
10 be that Chuck Morrison did, but that's simply
11 a guess on my part.

12 I know the big concern was that bad
13 debt expense was all over the place, meaning
14 it was not a consistent number, and it just
15 kept getting higher and higher.

16 I think people in operations who
17 Chuck Morrison had to talk with and deal with
18 had concerns about whether bad debt expense
19 was right and why it was so high and what was
20 going on.

21 Because of that they tried to smooth
22 the bad debt expense out and book it at
23 budgeted levels until they could get their
24 arms around the issue.

25 I think it came from Chuck Morrison,

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1 the directive, based on his dealings with
2 operations, but I can't say that 100 percent
3 for sure.

4 Q. What was Mr. Morrison's role at AHERF?

5 A. He was the CFO, the chief financial officer,
6 of the eastern region hospitals, so he
7 actually was located in Philadelphia. He had
8 a very large staff out there, a big
9 accounting staff just like we had in
10 Pittsburgh, and his people were supposed to
11 be more operational.

12 Like he had Kathy Stephans, for
13 example, reported directly to him, and she
14 was supposed to be like the direct contact
15 with Hahnemann Hospital dealing with their
16 operations people and trying to understand
17 what was going on. Randy Jacobson was
18 another one that reported to Chuck. Those
19 were his top two people.

20 Peter Keyes prepared the budgets for
21 Chuck Morrison. So he was out there in
22 Philadelphia with his own accounting staff,
23 and he was the chief financial officer of all
24 the hospitals out there.

25 Q. Did you have an understanding as to why there

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1 was an accounting group in Pittsburgh and a
2 separate accounting group out in
3 Philadelphia?

4 A. Well, I know initially the logic was let's
5 consolidate all the accounting and save
6 money, and we did actually save money from
7 doing that. We closed down a lot of the
8 detailed accounting work that was being done
9 out in Philadelphia.

10 The reason that they still needed to
11 maintain a presence out there is because
12 that's where the hospitals were physically
13 located, and they needed people that could go
14 to the hospitals and deal with the hospitals
15 directly on operational issues and finance
16 issues so that there was a presence out
17 there.

18 Q. Now, you said that there were concerns that
19 bad debt expense was all over the place?

20 A. Yes.

21 Q. I was wondering what you meant by that.

22 A. Instead of it being consistent from month to
23 month or in line with budget, it was normally
24 going up higher and higher each month. It
25 wasn't a consistent number, and it wasn't in

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1 line with budget. It was always well over
2 the budgeted levels.

3 Q. You mentioned it was your understanding that
4 people in operations had concerns?

5 A. Yes.

6 Q. Who are these people in operations?

7 A. Well, I know one of the people who Chuck
8 Morrison reported to -- he was an older
9 gentleman, and as soon as you asked me that
10 his name just went out of my head.

11 Q. Dr. Kaye?

12 A. Dr. Kaye. That was one of the main people
13 that had concerns. That's the name I heard
14 that was questioning it.

15 Q. Do you know when those concerns over bad debt
16 expense began?

17 A. From the perspective of the operations
18 people, probably in fiscal '97 when they
19 really started seeing it. From Coopers
20 perspective it would be '96 because they had
21 concerns about the way we recorded bad debt
22 and whether or not our bad debt methodologies
23 were adequate as far as like calculating our
24 reserves that we needed.

25 Q. When you say that Coopers had concerns, are

ROBIN SCHAFFER

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1 you talking about during the '96 audit?
 2 A. During the audit, yes.
 3 Q. And who from Coopers did you speak with about
 4 those issues?
 5 A. Actually with those issues I dealt some with
 6 Amy directly, and I think that Brian
 7 Christian was actually doing the '96 audit,
 8 if I recall correctly. But one of the things
 9 they did as an example is they took our
 10 agings for our hospitals and dumped them into
 11 the AGH model, the Allegheny General Hospital
 12 model, just to see how far off we were if we
 13 used their methodology which Coopers was very
 14 comfortable with.
 15 Q. When you say our hospitals, you're talking
 16 about DVOG hospitals?
 17 A. DVOG, yes.
 18 Q. And AGH is Allegheny General Hospital?
 19 A. Yes.
 20 Q. They had a different method of calculating
 21 bad debt allowance for the DVOG hospitals?
 22 A. Yes.
 23 Q. Is there anyone you can remember from Coopers
 24 talking to about bad debt issues in the '96
 25 audit other than Ms. Frazier and

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1 them agings, they were trying to run some of
 2 their own calculations trying to figure out
 3 what these guys really mean, meaning the DVOG
 4 hospitals on their books as far as bad debt
 5 versus what they have.
 6 Q. Did you ever see any calculations that
 7 Coopers may have run on their own?
 8 A. The only one I recall seeing, I believe
 9 Brian -- I believe it was Brian Christian
 10 took my agings and tried to put them into the
 11 AGH model. I remember there was just some
 12 things they asked me to take a peek at them
 13 just to say did we do this correctly.
 14 I just remember briefly looking at
 15 them, maybe saying, well, no, this payor
 16 really should be this one or that's that.
 17 Just some general things that I added. But
 18 that was the extent of my looking at what
 19 they did. They usually presented that stuff
 20 higher up than me after they came up with
 21 their answers.
 22 Q. Do you know anything about what the result
 23 was of any calculations that Coopers may have
 24 run like that?
 25 A. I vaguely recall that we did book additional

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1 Mr. Christian?
 2 A. Me specifically talking to anyone else, I
 3 don't recall.
 4 Q. Now, you said that they had concerns?
 5 A. Concerns, yes.
 6 Q. Can you tell us what you can recall about
 7 what they told you about what their concerns
 8 were?
 9 A. What I recall is just when they -- one, we
 10 had different methodologies and, two, the
 11 percentages we were using, depending on how
 12 old the receivables were, were different
 13 among the hospitals and not always probably
 14 as high as they should have been.
 15 What I recall specifically is them
 16 looking at our bad debt the way we recorded
 17 bad debt, not being very comfortable with the
 18 percentages themselves because of the aging
 19 of the receivables and just saying that, you
 20 know, if we used the DVOG numbers in the AGH
 21 model, what would we need as a reserve at
 22 that point because I felt they were more
 23 comfortable with the AGH methodology and the
 24 percentages that were being used.
 25 So they were more -- I was providing

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1 reserves in June. I don't know how much,
 2 June of '96. I don't know how much or where
 3 they came from exactly, but I do remember
 4 that I think Bill Beuttner proposed that we
 5 actually book something to try to help solve
 6 the problem.
 7 Q. Do you recall that there was a \$17 and a half
 8 million amount of additional reserves that
 9 were booked?
 10 A. That's the number. Now that you say that
 11 number I recall it. I can actually see it on
 12 a memo that Dan had written, yes.
 13 Q. Was it your understanding that the idea for
 14 doing this came from Coopers?
 15 A. Yes.
 16 Q. Who did you get that understanding from?
 17 A. That the idea came from Coopers, that would
 18 have been Dan.
 19 Q. How frequently generally while you were at
 20 AHERF did you interact with Mr. Cancelmi?
 21 A. Very frequently.
 22 Q. Daily?
 23 A. Daily.
 24 Q. Hourly?
 25 A. No. He was very busy. I would say that I at

ROBIN SCHAFFER

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1 been in fiscal '96 that they actually
 2 converted to Invision. Then MCP and EPPI
 3 came on to Invision later, and then Hahnemann
 4 would have been the last one to be converted.
 5 Q. Do you remember when MCP and EPPI switched to
 6 Invision system?
 7 A. I can't recall. I don't remember if it was
 8 in fiscal '97. I can't remember exactly when
 9 they came on board. I know they were after
 10 Elkins, Bucks and St. Christopher's, but I
 11 don't remember the exact time frame.
 12 Q. Do you remember at all when Hahnemann came
 13 onto the Invision system?
 14 A. Precisely, no.
 15 Q. Why were the hospitals being switched over to
 16 the Invision system?
 17 A. I think it was for primarily because they
 18 thought it was a better system to build a
 19 receivables and collect the receivables from.
 20 The decision to use Invision, I believe, came
 21 from the Patient Financial Services Group,
 22 the Greg Snow group.
 23 Q. Now, what type of accounting software
 24 programs did you use in your job?
 25 A. I used Lotus a lot to put, organize that and

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1 do spread sheets and stuff. We were on the
 2 Dun & Bradstreet general ledger system.
 3 That's the two basic things we used.
 4 Q. Was there some type of interface from the
 5 patient accounting system to your general
 6 ledger system?
 7 A. Yes.
 8 Q. How did that work?
 9 A. There was basically what they called a
 10 conversion table that was built. I was
 11 responsible for building it initially and
 12 maintaining it.
 13 You basically took some key feeds
 14 from the patient accounting system, linked
 15 them to some key feeds in the general ledger
 16 account like account cost center.
 17 Every month you would accumulate the
 18 data, inpatient accounting, patient
 19 accounting system, run it through this table,
 20 and it would be interfaced into our general
 21 ledger.
 22 Q. Did you have direct access to the patient
 23 accounting program?
 24 A. The only access I had, I could inquire on
 25 accounts. I could go in and look up a

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1 patient and see the detail of what was
 2 charged to his account. I couldn't edit
 3 anything, change anything. I didn't have
 4 that type of access. It was inquiry only.
 5 Q. But you were able to read data in the patient
 6 accounting system from your own desk?
 7 A. Yes.
 8 Q. Is that a function that only you had, or did
 9 others in the accounting department also have
 10 that ability?
 11 A. I was the only one that had that. I think
 12 later on I may have given Brian Savchak or
 13 one of the other staff accountants security,
 14 but I was primarily the one that could do
 15 that.
 16 Q. Now, I think we had gone on to this topic
 17 because you were telling me that the
 18 different DVOG hospitals actually had
 19 different bad debt allowance methodologies;
 20 is that correct?
 21 A. Yes.
 22 Q. What were the differences that you can
 23 recall?
 24 A. The one that was the most unique would have
 25 been MCP and EPPI. They basically only

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1 reserved patient balances. What I mean is
 2 you can have a person that comes into the
 3 hospital and has insurance coverage, but a
 4 portion of their balance may be covered, they
 5 have to pay it themselves.
 6 In the bad debt methodology for MCP
 7 and EPPI all they reserved for was the
 8 patient balances on all the financial classes
 9 meaning your Medicare, Blue Cross, your HMOs,
 10 et cetera.
 11 Whereas the normal is to reserve on
 12 the entire account balance regardless of
 13 whether or not it's insurance or patient.
 14 The biggest difference between all five of
 15 them were just the percentages that were used
 16 as far as if an account was zero to 30 days
 17 old, how much reserve was on that versus if
 18 it was over a year old.
 19 All the percentages were very
 20 different. The other difference is the way
 21 we would book bad debt, meaning for Elkins,
 22 Bucks, St. Chris and MCP, EPPI.
 23 We would do what we call the income
 24 statement method, which was taking a
 25 historical percentage of bad debt in relation

11 (Pages 38 to 41)

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to net revenue and booking bad debt that way every month, and then on a quarterly basis or even monthly basis looking at a balance sheet method which is where you take the aging of the receivables and reserve based on A/R balances and seeing whether or not we were over or under reserve using this income statement method. Hahnemann always used a balance sheet method. They booked based on the receivable balance.

Q. If I understood what you just testified to, the balance sheet method involves dividing the patient accounts into different payor categories; right?

A. First, yes.

Q. And then you separate the accounts out into different aging buckets; is that correct?

A. Correct.

Q. And then for each bucket for each payor category you apply a loss percentage?

A. That's correct. A bad debt reserve or writeoff percentage, yes.

Q. And that's how you would determine the proportion of accounts in that bucket that should be in the bad debt allowance?

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Q. Would you review the monthly calculation at Hahnemann using the balance sheet method?

A. Yes. If I didn't prepare it, I would review it, yes.

Q. Now, at the four other DVOG hospitals I think you indicated on a monthly basis the bad debt expense was determined using the income statement method?

A. Correct.

Q. And that would be done using a percentage of gross revenue; is that right?

A. Net revenue. Normally it was net revenue.

Q. What percentage was used?

A. That I don't recall. It varied for each of the different hospitals. We would look back at where their bad debt expense was the prior year in relation to net income and that's how the percentages were developed.

Q. At the end of each year was the balance sheet method applied to the four DVOG hospitals that on a monthly basis used the income statement method?

A. Yes.

Q. So even if during a given year they were either overbooking or underbooking expense,

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A. Correct.

Q. And at Hahnemann you applied the balance sheet method every month?

A. Every month, yes.

Q. So who would actually perform that calculation?

A. That would be me and my staff that would do that.

Q. Would you do that or would Mr. Savchak or Ms. Gall and Ms. Forte?

A. Normally the staff would. Early on when we were acquiring the DVOG hospitals I did a lot of the detailed work myself. I actually did most of it myself for the first couple of months before it was brought back to Pittsburgh. But normally the staff accountants would do that.

Q. Okay. So when you got hired in the spring of '95 AHERF was in the middle of consolidating accounting functioning back to Pittsburgh?

A. That's correct.

Q. Is that actually why you were hired? That was all part of that, of that effort of consolidation?

A. Yes.

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that problem would get fixed at year-end?

A. Yes, for the audit, yes.

Q. And did you prepare the calculations for those four hospitals using the balance sheet method at year-end?

A. Either myself or the staff, one or the other.

Q. And if the staff prepared it, would you have a look at it?

A. Yes.

Q. You would see that it was right?

A. Yes.

Q. So those four hospitals would be Elkins Park, Bucks, St. Christopher's and MCP?

A. Yes.

Q. Now, the patient accounting information from the PFSG was gross revenue; is that right?

A. Primarily. There were different buckets of receivables. I'll explain that. There were people that were in-house that were still physically in the hospital. Those were gross receivables or gross revenue.

There were people that had been discharged but not final billed. Those were also gross receivables. Some of the final billed accounts would have been net

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1 receivables.

2 The patient accounting systems had
3 what they called a PRM. It was a Payment
4 Responsibility Master or something like that,
5 that based on the actual contracts would go
6 in at time of bill and calculate the net what
7 they expected to collect, the net research.
8 That was on the inpatient side.

9 On the outpatient side there was a
10 mix, again some accounts had been
11 contractualized and some were at gross.

12 Q. So PRM is P-R-M?

13 A. P-R-M, yes.

14 Q. When you say contractualized, that means
15 taking gross revenue and getting down to net
16 revenue?

17 A. Correct.

18 Q. What term did you use for the difference from
19 gross revenue to net revenue?

20 A. Different things. Charge differential was
21 maybe something that people would use.
22 Contractual reserve. Those are the two main
23 things.

24 Q. You used those two terms to mean that amount
25 between gross revenue and net revenue?

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1 would either get them from reimbursement, the
2 reimbursement department, or we would
3 calculate based on historical payment data
4 what we were going to be paid, and we would
5 price everything out that way.

6 Q. Now, I think you indicated that for the final
7 billed accounts, at least on the inpatient
8 side, most of the accounts were already
9 contractualized within the patient accounting
10 system?

11 A. That's correct.

12 Q. Was that done at the time of billing?

13 A. Yes.

14 Q. Were there certain categories of inpatient
15 final billed accounts that were not
16 contractualized within the patient accounting
17 system?

18 A. Yes.

19 Q. What categories were those?

20 A. Normally on the inpatient side it wasn't
21 necessarily a particular category. It was a
22 result of problems with the PRM that the
23 system basically just wasn't working
24 appropriately.

25 The outpatient side is different, and

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1 A. Yes.

2 Q. So the patient accounting system carried the
3 in-house accounts and the discharge not final
4 billed accounts at gross; is that right?

5 A. Yes.

6 Q. Who then would make sure that those accounts
7 receivable would be brought down to a net
8 level?

9 A. That would be my department in accounting.

10 Q. How did you do that?

11 A. We -- primarily the easiest way to explain
12 it, we looked at, for example, Medicare.
13 Medicare pays on a per case basis based on a
14 DRG. We would look at the number of cases in
15 the receivables at month end, and we would
16 calculate out based on these per case rates
17 that our reimbursement department, Joe
18 Scharf, would provide to us.

19 We would calculate out I have 10
20 cases, I'm going to be paid \$10,000, I'm
21 going to be reimbursed 100,000, my gross
22 charges are 200, I need to contractualize
23 100,000.

24 For Blue Cross they were paid per
25 day. Again, we would get per day rates. We

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1 I'll speak to that in a moment. But the
2 inpatient side, normally if an account went
3 to a final billed status on the inpatient
4 side, the rates should have been loaded into
5 this PRM, and the contractual should have
6 been taken. But there were problems and
7 issues with the data that was in the PRM.

8 Q. Did you have an understanding as to why there
9 were problems with the PRM?

10 A. I think one issue was with the conversion.
11 Some of the stuff may not have been set up
12 correctly in Invision. That was one issue.

13 Another issue was when a patient's
14 financial class would change, meaning if he
15 came in Medicare and later we found out he
16 really should have been Blue Cross, you
17 change the financial class. A lot of times
18 the PRM was reversing the contractual and not
19 putting a new contractual back on the
20 account.

21 Q. So the first problem with the PRM that you
22 mentioned was conversion. That's conversion
23 from PATCOM to Invision?

24 A. Correct.

25 Q. Second problem you mentioned with the PRM is

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1 that didn't happen?

2 A. Greg Snow.

3 Q. Now, we've moved on, I guess, to the

4 outpatient accounts. Were final billed

5 outpatient accounts generally carried in the

6 patient accounting system at gross or at net?

7 A. Generally at gross. They tried to load --

8 patient accounting tried to load some of the

9 contracts into the PRM. But it's more

10 complicated, I think, on the outpatient side.

11 I don't know what the split was. It might

12 have been like 60-40, 60 percent gross, 40

13 percent net.

14 Our problem in accounting was always

15 trying to determine what we needed to reserve

16 and what we didn't based on what was at

17 gross. That was a frustration that we had

18 because they changed it constantly in patient

19 accounting.

20 Q. For outpatient final billed accounts then was

21 it your responsibility to reduce those from

22 gross to net?

23 A. If they were at gross, yes.

24 Q. And did you then calculate the bad debt

25 allowance as a proportion of net accounts

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1 receivable?

2 A. Yes. After we factored in the contractuals

3 that we manually would reserve in accounting,

4 they would then take a net receivable number

5 and calculate bad debt expense on that

6 number.

7 Q. Now, a few minutes ago you were telling me

8 about the bad debt allowance methodology at

9 MCP, EPPI. That was, I think you testified,

10 a methodology that was reserved only for

11 self-pay accounts and for patient portions of

12 other accounts?

13 A. Correct.

14 Q. Do you recall any discussions that you may

15 have had about the MCP, EPPI bad debt

16 methodology with Coopers & Lybrand during the

17 1996 audit?

18 A. I know specifically -- when I say that they

19 generally had concerns about our methodology,

20 the MCP, EPPI one was probably the biggest

21 concern because that one -- because of how it

22 was done, probably there was the most

23 exposure was on that particular group.

24 Q. The most exposure meaning the greatest

25 potential that it was underreserved?

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1 A. Yes.

2 Q. Before you spoke to Coopers & Lybrand about

3 the MCP, EPPI bad debt methodology, had you

4 had your own concerns?

5 A. In '96, yes. I'll have to say in '95, when I

6 first came to Allegheny to start doing

7 revenue I didn't have a lot of experience. I

8 had to learn pretty quickly.

9 In '96 I probably wasn't as concerned

10 as Coopers until Coopers brought it up. My

11 concern was, of course, after they started

12 bringing it up that we were going to have an

13 audit adjustment.

14 But I knew just from looking at the

15 methodologies that there were problems, but I

16 was really concerned when Coopers had the

17 same issues.

18 Q. When you referred to an audit adjustment, can

19 you just explain what that is?

20 A. Yes. Normally after Coopers would review our

21 financial statement, if they determined that

22 anything wasn't properly or adequately

23 recorded on our general ledger, they would

24 propose an adjustment to our financial

25 statements, sort of an after-the-fact

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1 adjustment because the financial statements

2 unaudited would have been presented to

3 various people in the organization.

4 Q. Was an audit adjustment something you

5 generally tried to avoid?

6 A. Generally.

7 Q. Why?

8 A. It's better from our perspective. In

9 accounting we are doing a better job if our

10 financial statements are accurate when

11 Coopers comes in.

12 We always try to make them as clean

13 as we could before Coopers came in. So

14 generally we didn't like audit adjustments

15 because it was a reflection maybe we weren't

16 doing our job.

17 Q. A reflection meaning that more senior people

18 at AHERF might believe that the accounting

19 group wasn't doing its job?

20 A. Yes.

21 Q. Do you remember who from Coopers & Lybrand

22 you spoke to during the 1996 audit about the

23 MCP, EPPI bad debt methodology?

24 A. Again, I think the two people I was most

25 involved with were Amy Frazier and Brian

16 (Pages 58 to 61)